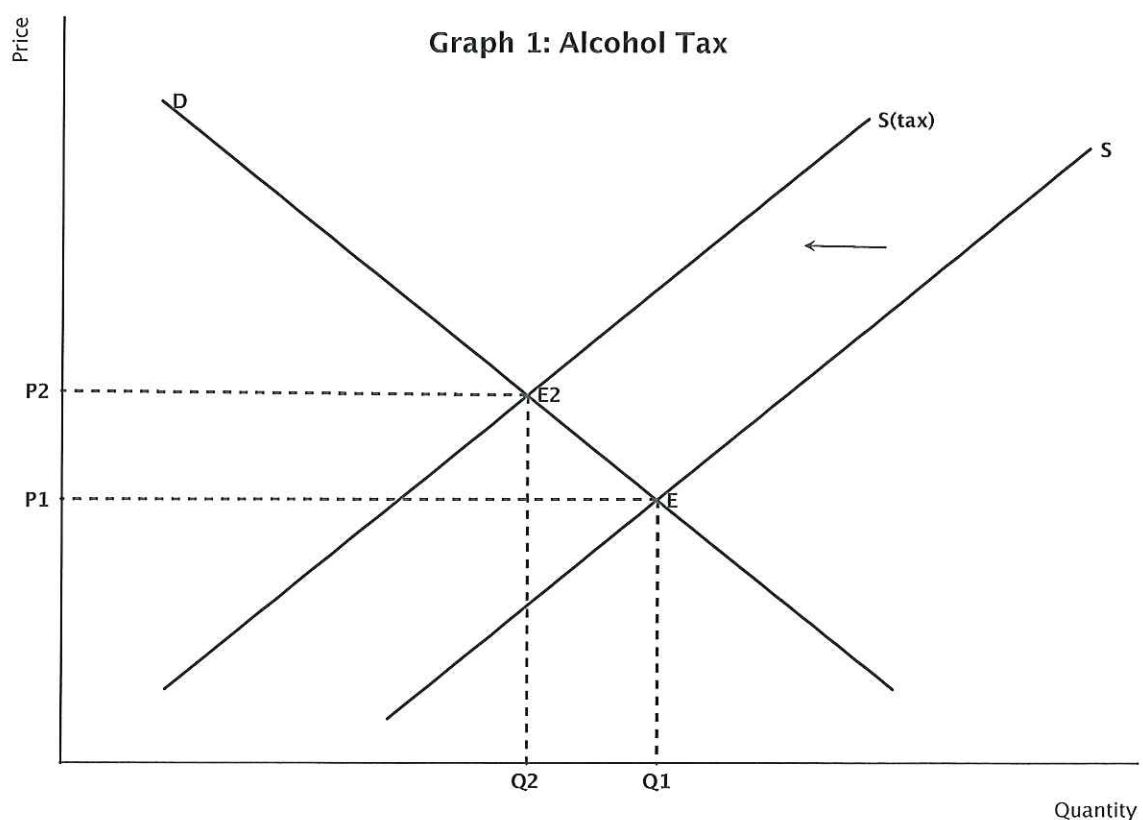
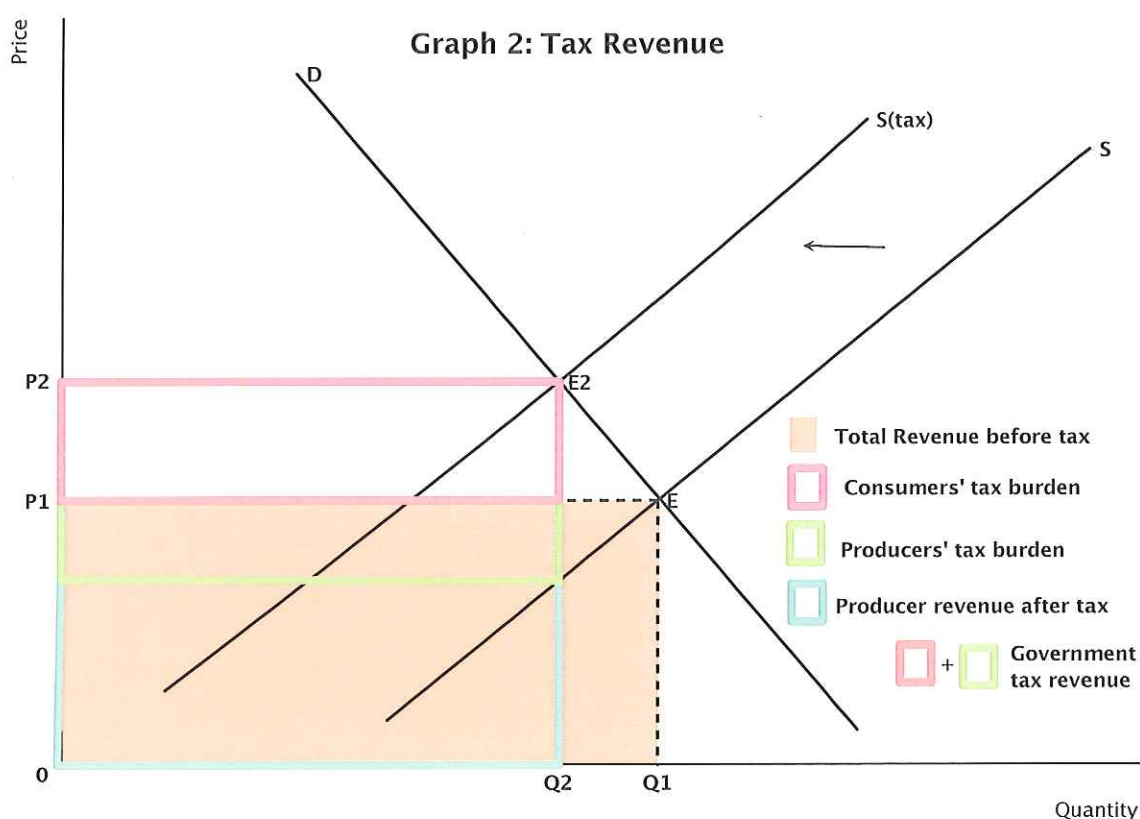


A bill has been proposed in Cecil County to increase an average of 790 percent in alcohol tax. Opponents who are mostly members of the liquor industry suggests that as tax is added on alcohol, consumers will simply go to neighboring states to purchase. Shown in graph 1, As the alcohol tax increases, supply of alcohol will decreased due to the determinant of supply of government intervention. Supply is the quantity of goods producers are willing and able to produce at a given price and time period. The determinants of supply are non-price factors that influence the seller's willingness to sell goods. In this case, due to the increase in tax by government, the supply will decrease, increasing the price of alcohol. The quantity demanded will also decrease as the law of demand states: when price increases, the quantity demanded decreases.



Alcohol has a relatively inelastic price elasticity of demand (PED), the measure of how much the quantity demanded of a product changes with a change in price of it. This means a change in price of it leads to a proportionally smaller change in the quantity demanded. As a result, on graph 2, the tax revenue received by the government will be high. Therefore, the government places indirect taxes on alcohol as the demand will not decrease rapidly and so the government can gain high revenue without causing a large fall in employment.



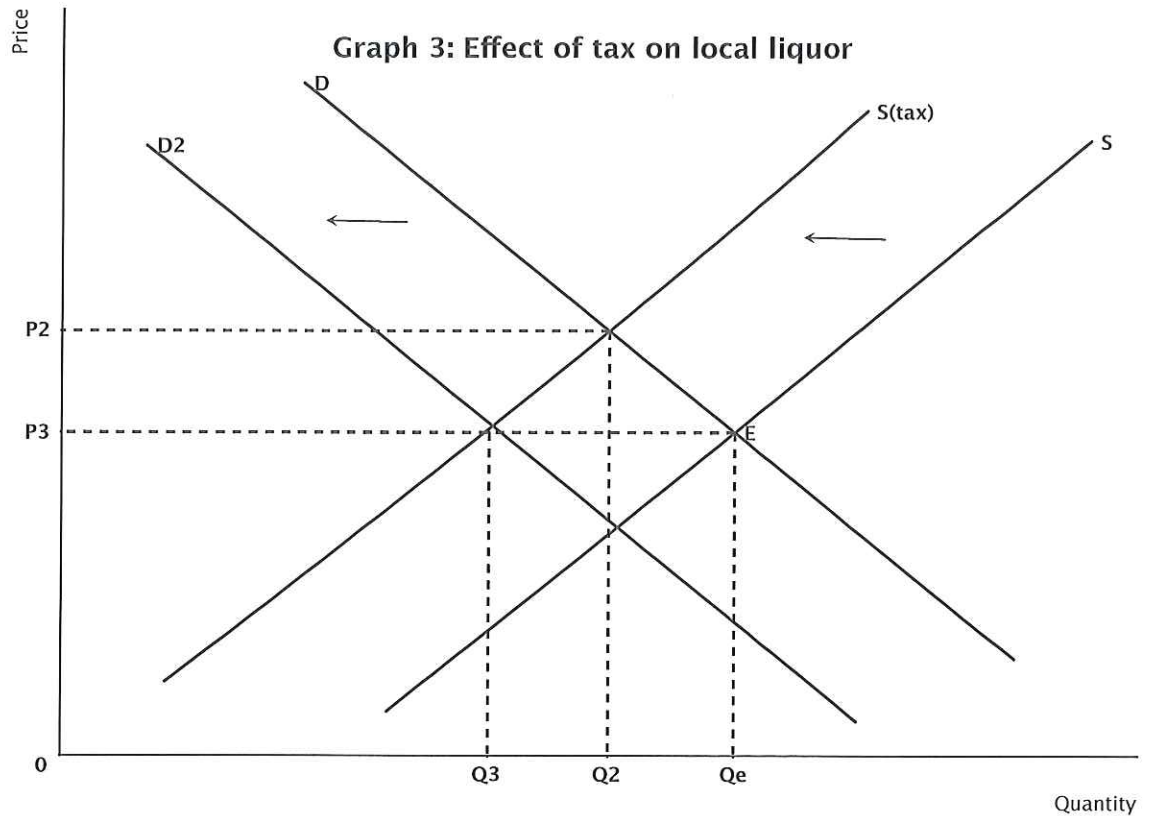
Business owners oppose the bill as it reduces their total revenue by a huge amount. Total revenue is calculated by multiplying the price and quantity of a product. Shown on graph 2, the producer revenues after tax decreases from the orange area to blue box. As the government gains high tax revenue from the

bill, health service groups are proponents as they will be able to receive up to \$215 million because “the bill creates up six funds to receive the new tax revenue.”

The bill raises the consumer price on wine from 40 cents to \$2.96 and the most recent raise of tax in Maryland was 1972. Therefore, I think the bill has good intents but requires amendments. Firstly, I agree that the alcohol tax is overdue, as it has not raise for 40 years. Also, because medical service groups will receive the tax revenues; it is socially beneficial. As alcohol has a relatively inelastic demand, an increase in the price of the product will lead to a proportionally smaller decrease in the quantity demanded. Therefore, increasing taxes on alcohol will allow the government to receive a stable and huge source of tax revenue for medical uses, yet at the same time, will not cause a large fall in employment (graph 2). It is effective because compared to an elastic demand, adding tax on alcohol will allow the government to receive more tax revenue. Therefore, adding alcohol tax will be beneficial.

Yet, adjustments should be made to the bill. The tax increase is too large because the economy is recovering from the economic crisis. As shown on graph 2, when the tax increases, a business will have less revenue. The measure calls for an increase in “the tax on a gallon of spirits from \$1.50 to \$10.05”, about 7 times of the original. Many businesses will not be able to withstand the effect. At the same time, consumers, contributing to about half of the tax, will also suffer. Moreover, there are substitutes for Maryland alcohol customers because they will simply purchase alcohol from neighboring states for cheaper prices. As shown on

graph 3, this will affect the total revenue of local companies, as decrease in demand decreases both price and quantity demanded to P_3 and Q_3 .



Therefore, I strongly agree with increasing of alcohol tax but I suggest a less rapid increase (divide into a few times). This will be better because the government is able to obtain stable tax revenue, and at the same time it allows the producers and consumers to suffer less from the situation.

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Cecil County hospitality industry not happy with proposed dime-a-drink tax

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http://www.cecilwhig.com/business/article_f01314dc-3fb7-11e0-9946-001cc4c002e0.html By Cheryl Mattix cmattix@chespub.com

Cecil County hospitality business owners say a bill heard by a Maryland Senate panel in Annapolis on Wednesday - touted as a dime-a-drink tax increase -- could have a devastating impact on small businesses here if it passes as introduced.

However, health care advocates support the measure and say it can raise \$215 million for health care statewide.

The measure calls for an average increase of 790 percent in the alcohol tax levied against beer, wine and spirits, raising the consumer price on a bottle of wine by 70 cents, a case of beer by \$2.50 and a bottle of spirits by \$4.

The legislation would increase the tax on a gallon of spirits from \$1.50 to \$10.03, from 40 cents to \$2.96 on a gallon of wine and from nine cents to \$1.16 a gallon for beer. The last time Maryland raised taxes on beer and wine was 1972 and for spirits in 1955.

Proponents of the bill, which is formally called the Lorraine Sheehan Health and Community Services Act of 2011, say an alcohol tax increase is overdue in Maryland, which has one of the lowest alcohol taxes in the nation.

A provision in the bill creates up six funds to receive the new tax revenue. A majority of the revenue (34 percent) would go to the Medicaid trust fund, while developmental disabilities, mental health and addiction treatment would each get 15 percent, or approximately \$32 million.

Upper Bay Counseling Executive Director Rich Bayer supports the legislation which, he says, will boost health services his group provides in Cecil County.

"If it passes as written with no amendments, it will absolutely help us," Bayer said.

"We desperately need this," he said, pointing out that mental health services have been funded at levels dramatically below the rate of inflation for the last 14 years. One way it will help is by boosting Medicaid and increasing the pool of uninsured that will be eligible for benefits, Bayer said.

"We probably turn away 10 people a week that would be helped by this," he said. Meanwhile, members of the liquor industry in Cecil County are singing a different tune.

"It's a bad time for any increase in taxes for anyone," said Larry Metz, owner of the Wellwood Club, a waterfront restaurant and banquet facility in Charlestown.

"This proposal is way too drastic," said Metz, who says he's voiced his opposition to the bill with some members of the Cecil County delegation.

Robert Murray, owner of State Line Liquors, a package store within a half-mile of Delaware, says the bill will have a major impact on his business, which he estimates draws about 60 percent of its sales from out-of-state customers.

"They'll just go to Delaware or Pennsylvania if this passes," Murray said. "It reminds of what they did with the cigarette taxes a few years ago."

Murray said doubling the cigarette taxes in Maryland drove all his cigarette sales across the border to sales-tax-free Delaware. "We used to sell 1,000 cartons a week, now we only sell by the pack," Murray said.

Greg Birney, owner of Cherry Hill Liquors, says promotion of the bill as a "dime-a-drink" tax is deceptive.

"It's not just drinks in a bar as the campaign says, it's a huge tax on each bottle, case or keg," he said.

"We are looking at an economy that is just starting to get back on its feet," Birney said.

"This is not the time to raise this tax," he says will hurt bars, restaurants, package stores and distributors. Birney says the passage of the bill could force him to close.

About two weeks ago, Birney initiated a postcard campaign from his Cherry Hill store that has spread to a couple of other retailers. The campaign asks customers who oppose the tax increase to fill out postage-paid cards to be sent to lawmakers. "So far, about 1,000 postcards have been mailed to Annapolis," he said.

Hospitality industry supporters statewide oppose the bill, saying it could lead to the loss of 8,300 jobs in Maryland.

Cecil County ranks 13 out of 23 jurisdictions in Maryland for the amount of alcohol excise tax collected, generating \$1.4 million in fiscal year 2010, according to the State Comptroller's Office.

However, the county is first in its consumption of spirits per capita, measuring a consumption of 6.84 gallons per person in fiscal year 2010. Cecil County comes in second place, only beat by Worcester County (Ocean City), in its consumption of beer at 28.6 gallons per person and a ranking of sixth in the state for its consumption of wine at 3.3 gallons per person.

Those statistics are likely to drop dramatically if the law passes, according to Birney, who has studied the numbers and viewed the state's fiscal analysis of the bill. Cecil County's close proximity to Delaware and Pennsylvania is a natural attraction for across the border sales, several liquor store owners say because Maryland's lower excise tax makes Cecil County competitive.

A companion bill is scheduled for a hearing March 3 in front of the House Ways & Means Committee.